

AUDITOR'S REPORT OF THE AUDITOR-GENERAL TO THE NORTHERN CAPE PROVINCIAL LEGISLATURE AND THE KHAI- MA MUNICIPAL COUNCIL

REPORT ON THE FINANCIAL STATEMENTS

Introduction

I have audited the accompanying financial statements of the Khai-Ma Local Municipality, which comprise the statement of financial position as at 30 June 2010, and the statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages xx to xx.

Accounting officer's responsibility for the financial statements

The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with the Standards of Generally Recognised Accounting Practice (SA Standards of GRAP), as set out in accounting policy note 1 and in the manner required by the Local Government: Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA). This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor-General's responsibility

As required by section 188 of the Constitution of South Africa, 1996 (Act No. 108 of 1996), section 4 of the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and section 126(3) of the MFMA, my responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with International Standards on Auditing and *General Notice 1570 of 2009* issued in *Government Gazette 32758 of 27 November 2009*. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Khai- Ma Local Municipality as at 30 June 2010 and its financial performance and its cash flows for the year then ended, in accordance with the SA Standards of GRAP and in the manner required by the MFMA.

Emphasis of matters

I draw attention to the matters below. My opinion is not modified in respect of these matters:

Going concern

As disclosed in note 64 to the financial statements, the municipality is based in an area with little economic activity and the majority of community members are classified as indigents. This situation resulted in cash flow problems, which cast doubt on the municipality's ability to continue as a going concern. The municipality is dependent on national and provincial government grants for its continued existence.

Unauthorised expenditure

As disclosed in note 50.1 to the financial statements, unauthorised expenditure to the amount of R2 651 419 was incurred, as a result of exceeding budget the limits for expenses.

Fruitless and wasteful expenditure

As disclosed in note 50.2 to the financial statements, fruitless and wasteful expenditure to the amount of R273 098 was incurred, as care was not taken to avoid legal costs.

Irregular expenditure

As disclosed in note 50.3 to the financial statements, irregular expenditure to the amount of R2 983 221 was incurred during the year as a result of:

- non-compliance with the supply chain management policy amounting to R1 111 580
- non-compliance with DoRA due to the utilisation of municipal infrastructure grants for operating purposes amounting to R1 871 641.

Restatement of corresponding figures

As disclosed in the note 50.2 to the financial statements, the corresponding figures have been restated as a result of an error discovered during the audit for the year ending 30 June 2010. The municipality did not disclose avoidable legal costs as fruitless and wasteful expenditure incurred during the 2008-09 financial year in the annual financial statements of that year amounting to R538 388.

Material losses

As disclosed in the note 51.8 to the financial statements, material losses amounting to R1 786 388 were suffered due to insufficient monitoring of the electricity and water reticulation systems and non-implementation of credit control policies:

Additional matters

I draw attention to the matters below. My opinion is not modified in respect of these matters:

Material inconsistencies in other information included in the annual report

I have not obtained the annual report and therefore have not been able to identify any material inconsistencies with the financial statements.

Unaudited supplementary schedules

The municipality provided supplementary information in the financial statements on whether resources were obtained and used in accordance with its legally adopted budget, in accordance with GRAP 1 *Presentation of Financial Statements*. The supplementary budget and appendices A to F as set out on pages 60 to 67 do not form part of the financial statements and are presented as additional information. Accordingly I do not express an opinion thereon.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In terms of the PAA and *General Notice 1570 of 2009* issued in *Government Gazette 32758 of 27 November 2009*, I include below my findings on the report on predetermined objectives, compliance with the MFMA, Division of Revenue Act of South Africa, 2009 (Act No. 12 of 2009) (DoRA), Local Government: Municipal Systems Act of South Africa, 2000 (Act No. 32 of 2000) (MSA), Local Government: Municipal Structures Act of South Africa, 1998 (Act No. 117 of 1998) and Municipal Planning and Performance Management Regulations, 2001, and financial management (internal control).

Predetermined objectives

Non-compliance with regulatory and reporting requirements

Municipal Systems Act

Contrary to section 46 of the Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA), the municipality did not prepare an annual performance report for the financial year ended 30 June 2010.

Contrary to section 38 of the MSA, the municipality did not have a performance management system in place.

Contrary to section 34(a)(i) and (ii) of the MSA, the municipality reviewed its IDP even though no performance review was done during the 2008-09 financial year.

Contrary to section 57(1)(b) of the MSA, the municipality did not sign performance agreements between the mayor and the accounting officer, and between the accounting officer and section 57 managers directly accountable to him.

Municipal Finance Management Act

Contrary to section 72(1) of the Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA), the accounting officer did not assess the performance of the municipality during the first half of the year and did not submit any mid-year performance reports to the mayor of the municipality.

Contrary to section 69(3)(a) of the MFMA, the accounting officer did not submit a draft service delivery budget implementation plan (SDBIP) to the mayor 14 days after the budget had been approved because the municipality did not develop an SDBIP.

Compliance with laws and regulations

Municipal Finance Management Act

The audit committee has not been properly established and is not properly functioning:

Contrary to the requirements of section 166(1) of the MFMA, the municipality did not have an audit committee in operation throughout the financial year.

The internal audit unit has not been properly established and is not properly functioning:

Contrary to the requirements of section 65(1) of the MFMA, the municipality did not have an internal audit unit in operation throughout the financial year.

Expenditure was not paid within set parameters in accordance with applicable laws and regulations

Contrary to section 65(2)(e) of the MFMA, the municipality did not pay its suppliers 30 days from the date of receipt of an invoice.

Contrary to section 65(2)(j) no creditors reconciliations were performed during the year.

Annual budgets are not prepared and tabled within the applicable laws and regulations

Contrary to section 16(2) of the MFMA, the annual budget was not tabled within at least 90 days before the start of the financial year.

The mayor did not adhere to her legislative responsibilities

Contrary to section 21(1)(b) of the MFMA, the mayor of the municipality did not at least 10 months before the start of the budget year, table in the municipal council a time schedule outlining key deadlines for the budget and the IDP.

Contrary to section 52(a) and (d) of the MFMA, the mayor did not submit any quarterly reports on the implementation of the budget and the financial state of affairs at the municipality.

The accounting officer did not adhere to his statutory responsibilities

Contrary to section 32(4) of the MFMA, the accounting officer did not inform the mayor, the MEC for Local Government in the province and the Auditor-General, in writing, of the unauthorised and fruitless and wasteful expenses that were incurred by the municipality.

Contrary to section 70(2) of the MFMA, the accounting officer did not notify the treasury of the amount of its bank overdraft, the reasons therefor and the steps taken to correct the matter.

Contrary to section 62 of the MFMA which requires the accounting officer to, among other things, maintains effective, efficient and transparent systems of risk management and internal control, the municipality did not have a disaster recovery plan or a fraud prevention plan.

Division of Revenue Act

Contrary to section 33(2) of the Division of Revenue Act, 2009 (Act No. 12 of 2009) (DoRA), the municipality spent conditional allocations for purposes other than as stipulated in the DoRA.

Municipal Structures Act

Contrary to schedule 5 paragraph 7 of the Municipal Structures Act, the councillors of the municipality did not declare their interests in writing to the municipal manager.

INTERNAL CONTROL

I considered internal control relevant to my audit of the financial statements and the report on predetermined objectives and compliance with the MFMA, DoRA, MSA, Municipal Structures Act, 1998, Municipal Planning and Performance Management Regulations, 2001 and financial management (internal control), but not for the purpose of expressing an opinion on the effectiveness of internal control.

Leadership

Senior management of the municipality did not set the correct tone at the top. Senior management did not respect and adhere to internal controls, which resulted in unauthorised, irregular as well as fruitless and wasteful expenditure being incurred and not detected by management.

Financial and performance management

Financial management

Senior management did not properly review the financial statements, which resulted in material amendments to the financial statements to ensure the fair presentation thereof.

In the absence of appropriate GRAP training to finance staff, management appointed external service providers to compile the financial statements.

Predetermined objectives

In the absence of appropriate training on predetermined objectives to municipal staff, and an adequate performance management system, the performance of the municipality against predetermined objectives was not monitored or reported on.

Compliance with laws and regulations

There were significant deficiencies in the design and implementation of internal control in respect of compliance with applicable laws and regulations.

Governance

Risk assessment

The Khai-Ma Municipality did not conduct a risk assessment as required by the MFMA. Consequently, a number of control deficiencies were identified. These included a failure to determine the laws and regulations which the municipality has to adhere to in order to verify service delivery performance.

Fraud prevention plan

The municipality has not undertaken a risk assessment to assess any risks of fraud and has consequently not developed a fraud prevention, as required by the MFMA.

Internal audit

The municipality only appointed an internal auditor three months before the end of the financial year. No internal audit work was performed during the year under review.

Audit committee

The municipality did not establish an audit committee. Consequently, the functions to be performed by an audit committee, notably to exercise oversight during the review period, were not performed.

Auditor General

Kimberley

30 November 2010



AUDITOR - GENERAL
SOUTH AFRICA

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